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DISCUSSION OF INVESTMENTS ON INSTALMENTS

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IN examining any new financial or industrial plan, we are obliged, in the existing state of social development, to look at it from two points of view: in the first place, is it economically effective? and in the second place, is it democratic? The one consideration is not less important than the other. Does Mr. Harmon's plan meet these two tests?

As regards economic effectiveness, it appears pretty clear that a company organized, officered and managed as Mr. Harmon proposes, could be made the means of affording a larger return to small investors, with a far greater degree of security, than they are able to enjoy under existing conditions. Assuming that to be the case, it seems that by safeguarding investments Mr. Harmon's plan would do something in the way of encouraging small investors to save money, and would thus be a means of increasing the capital at the disposal of industry. On that account it would be economically useful. The third economic advantage is the wide distribution of industrial securities, which would do something in the way of warding off the legislative attacks and the legal restrictions to which capital is subject at the present time. I am by no means certain that such a lessening of restrictions would be wholly a gain, even from the standpoint of wealth production. While such restrictions may have been carried too far, their indirect results at least have in many cases been favorable to an increased output of wealth.

Admitting the economic effectiveness of the scheme, is it democratic? Whether we like it or not our people are insisting more and more not only upon equality of financial opportunity, but upon the right of public control of every important industrial agency. Herein lies a difficulty: by no conceivable arrangement with regard to investments is it possible to harmonize entirely the interests of the whole community and of the indi-

¹ Discussion at the meeting of the Academy of Political Science, November 11, 1911.

viduals in it. Assume that by the application of such a plan investments should be very widely distributed, nevertheless you could not by any possibility get all the members of the community into the investing group: therefore there would be more or less opposition and friction between the investing group and the rest of the community. No mere change in investment arrangements can effect any complete unification of interests.

Given such a conflict of interests, social progress demands that the claims of non-investors be not unduly subordinated to those of investors; but an arrangement whereby the small investor might put his money into good securities, well managed, would still leave the actual control of financial affairs pretty much where it now rests, and the result might well be to enlarge somewhat the power of our financial magnates. A very serious aspect of the matter would be the political situation resulting from the placing of securities among small investors. Is a condition such as that in the state of Pennsylvania, where there is a wide distribution of the securities of a great railroad corporation, from any point of view an ideal state of affairs? I do not object to harmonizing the interests of the corporation with those of the public; I do question seriously whether the attainment of such a nominal harmony by increasing the power of the corporation over public opinion is to be desired and whether it is conducive to sane democratic development. Because Mr. Harmon's plan contains such a possibility, it needs careful scrutiny.

My criticism, then, would not be directed to the economic effectiveness of the plan, nor should I question most of the advantages claimed for it; but it should be pointed out that it would constitute only one small part of a really effective program of democratic social advance. In my judgment the most important result to be expected from it is the educational one. The effect not only in educating the small investor to the meaning of financial operations, but in giving the manager of investments a sense of his responsibility, in teaching him the possibilities of his position in the development of industry, would be of real and permanent value in bringing about that sense of mutual obligations and duties on which social progress must in the last instance depend.